

AR48



CENTRES LTD. • YEAR ENDED MARCH 31, 1972

ANNUAL REPORT

COMPUTREX CENTRES LTD.

DIRECTORS:

G. MARTIN KERNAHAN
WILLIAM H. TAYLOR
H. PETER SIMON

NEIL S. THOMPSON
WILLIAM C. EILERS

OFFICERS:

G. MARTIN KERNAHAN, President & Chairman of the Board
WILLIAM H. TAYLOR, Vice-president & Secretary-treasurer

EXECUTIVE OFFICES:

2000 Elveden House
Calgary 2, Alberta

TRANSFER AGENT AND REGISTRAR:

The Royal Trust Company
Vancouver, B.C.

LEGAL COUNSEL:

Russell & DuMoulin
1075 West Georgia Street
Vancouver 5, B.C.

AUDITORS:

Peat, Marwick, Mitchell & Co.
309 - 8th Avenue S.W.
Calgary 2, Alberta

DIVISION OFFICES:

103, 853 Richards Street
Vancouver, B.C.

10340 - 124 Street
Edmonton, Alberta

800 Portage Avenue
Winnipeg, Manitoba

16 Lesmill Rd.
Don Mills, Ontario

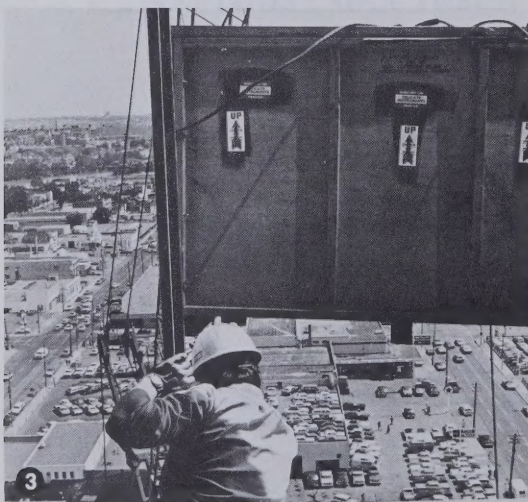
424 Queen Street
Ottawa, Ontario

2750 Chemin Ste. Foy
Ste. Foy, Quebec

4221 - St. Catherines St. W.
Montreal, Quebec

Computer

One of the Major Computer Peripheral Installations Planned and Coordinated by Computrex Personnel (July, 1972)



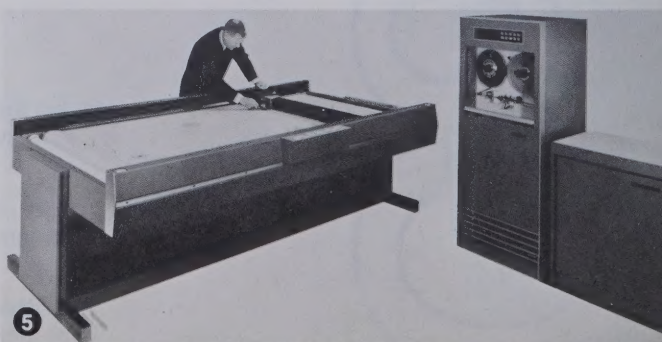
(1) Unloading Flatbed Plotting equipment from California transport vehicle.

(2) Two-hundred-foot boom assembled to hoist 2,000 lbs. of equipment to the 17th floor Computer Room of a major Company.

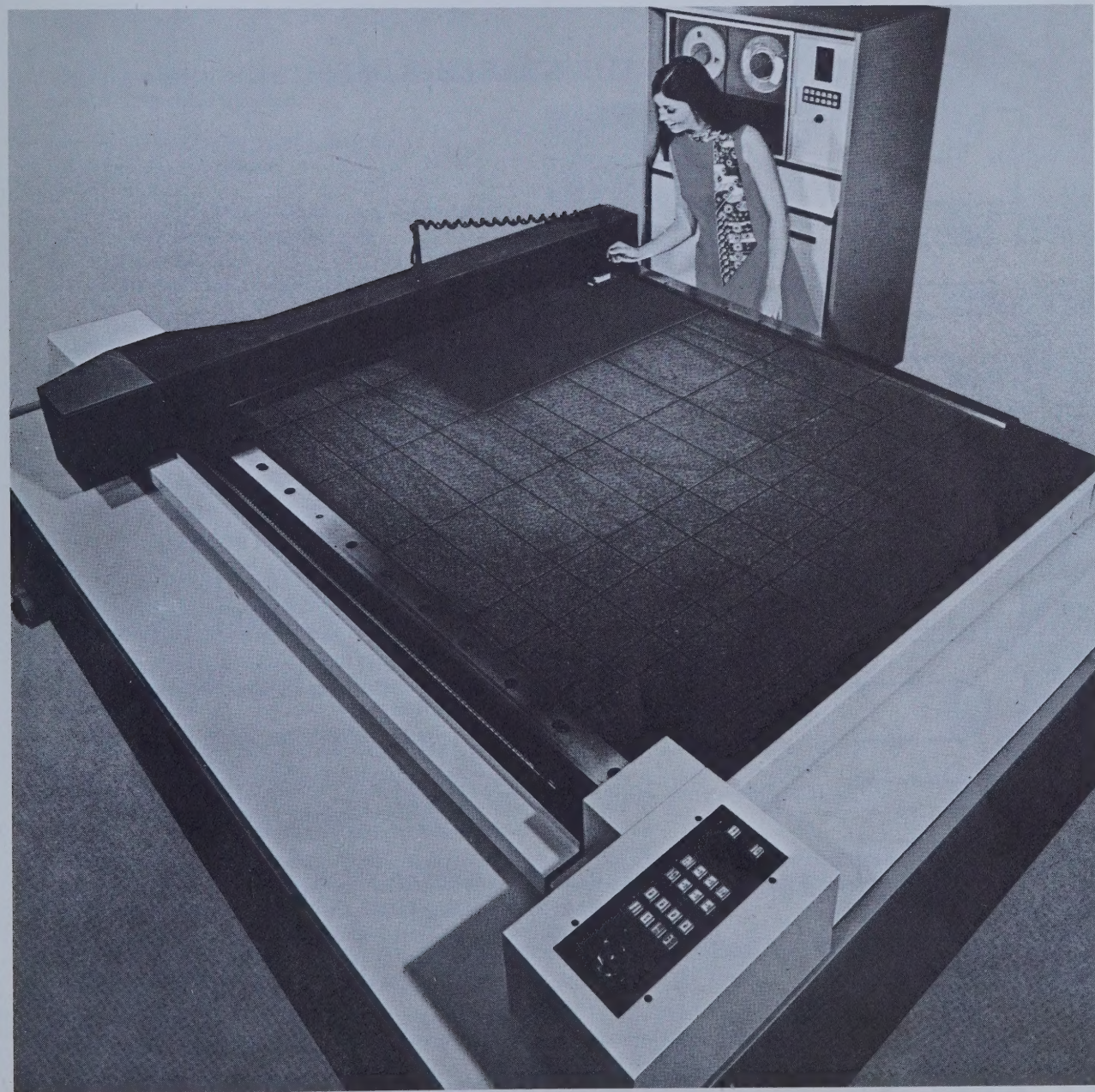
(3) Equipment arriving at window-opening after removal of glass and two window frames from the building.

(4) Computrex staff guiding heavy equipment onto a specially constructed ramp and into the Computer Room.

(5) Final assembly and operation of equipment was completed 4 hours after truck unloading. It was not necessary to shut down operation and move components of a major computer during installation.



Computrex Installs Large Scale High Precision, Computer Controlled Plotting System for Scientific Users



Computrex has again taken the initiative and purchased the first High Precision Plotting System outside of government use. This system (Calcomp 745) is housed at the new Toronto Area offices of Computrex in Don Mills, Ontario.

The 7000-pound plotter (peripherals not included) has a Resolution of one-ten-thousandth of an inch (.0001"). It is the "State of the Art" in precision graphics today. The equipment will be employed by sophisticated users, particularly in the mapping and cartographic fields, circuit mask manufacturing and other applications in the Electronics Industry.

The plotter will be equipped with the new and revolutionary "rotating scribe tool" for Scribe-coat cutting and, in addition, will be capable of "ink-on-paper graphics" as well as Peel-coat applications and Precision Light-Head ("Dark-room" operation) applications.

Computrex

TO THE SHAREHOLDERS:



Computrex Centres Ltd. (formerly Micro Graphics Limited) at March 31, 1972 completed the first full year of operations since the merger with Computrex Computer Centres Ltd. In all phases of operation and by financial standards, there is no question that the merger has proven most beneficial to both companies.

For the year ended March 31, 1971, the merged companies generated gross income of \$676,323 (9 months of Micro Graphics Limited alone and 3 months of Micro Graphics and Computrex Computer Centres). By comparison, the current year showed a 130% increase in gross revenues but I would be remiss not to point out that the current year's revenue was 30% greater than the revenue of Computrex Computer Centres Ltd. alone for the year ended December 31, 1970. Computrex Computer Centres Ltd. generated favorable cash flow for many years and comparable improvements have been made in the net earnings and cash flow of **Computrex Centres Ltd.** as discussed below.

Perhaps the most interesting comparisons between the current and preceding year are as follows:

- (1) CASH FLOW from operations of \$506,794 which is a \$1,037,234 increase.
- (2) CASH FLOW FROM OPERATIONS amounted to 11¢ per share or an increase of 40¢ per share based on the weighted average number of shares outstanding during the respective years.
- (3) NET EARNINGS of \$371,831 which is a \$1,000,765 increase.
- (4) NET EARNINGS PER SHARE of 8¢ or an increase of 31¢ per share based on the weighted average number of shares outstanding during the respective years.
- (5) WORKING CAPITAL of \$354,433 which is a \$323,029 increase.

THE CASH FLOW for the year, as shown above, was very favorable and our bank borrowing capacity is considerably in excess of our current requirements.

While we had a significant increase in WORKING CAPITAL this did not require issuing additional common shares. This working capital was mainly derived from a substantial CASH FLOW and a sustained generation of funds from proceeds on disposal of Fixed Assets. Fixed Asset sales resulted essentially from paid-out leased assets disposed of in order to keep current technologically. This was made possible by maintaining a strong sales force across Canada.

The following Ratios and Percentages reflect the important aspects of your Company's present favorable position.

Current Assets to Current Liabilities	2.1:1
Receivables to Payables	1.2:1
Debt to Equity	12.0%
Cost of Sales (including salaries and commissions) to Total Sales	74.5%
Salaries and Commissions to Sales	17.7%
Net Profit on Sales	22.3%
Net Profit on Shareholders' Equity	18.0%

Your company looks forward to another profitable year in 1973 and all "Business Indicators" point to an active year for increased sales of goods and services by Computrex. Continued improvement of our six established centres and the addition of new centres in Winnipeg and Montreal should result in increased earnings and better service to customers from Quebec City to Vancouver. Substantial new installations of all lines of Computer Graphics and Peripheral Hardware are probable by January, 1973 or prior to that date.

The growth of our segment of the Computer Industry is exciting and unlimited in the foreseeable future in Canada. Major new assets for both leasing and service bureaus have been purchased and some are installed and others will be installed as the market demands.

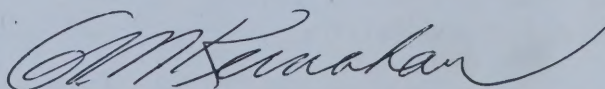
We have recently reduced our dependence on the Disk Drive market by an Agreement of Sale to a leasing company of some of our installed Disk Hardware. Proceeds will be applied to other more profitable areas.

Computrex has sold or installed nine (9) of the present fifteen (15) COM (Alphanumeric and Graphic) units now operating in Canada. Of the nine units, our company owns eight outright.

Interactive Graphics (CRT man/machine interfacing) is a relatively new area of activity for Computrex. We believe significant revenues will be generated from this line in a year or two. We are successfully pursuing this market and will make our first installation, in the near future, for the Federal Government.

Orders for Graphics Plotters (drum and flatbed) are setting a faster pace than has been experienced for two years. This portion of our business has been a major contributor to revenues for 10 years — in both sales and leasing.

In conclusion, I am pleased to report to you a most successful year and look forward to a continued good rate of growth.



G. M. Kernahan, P.Eng.
President

ASSETS

	1972	1971
CURRENT ASSETS:		
Cash	\$ 11,720	124,634
Accounts receivable (Note 3)	327,583	267,148
Inventories — at lower of cost or net realizable value	323,946	248,707
Prepaid expenses and deposits	12,756	10,600
Total current assets	<u>676,005</u>	<u>651,089</u>
LEASES RECEIVABLE including amounts maturing within one year (Notes 1 and 3)	403,590	439,508
Deduct unearned income	<u>227,389</u>	<u>316,371</u>
Net leases receivable	<u>176,201</u>	<u>123,137</u>
RESIDUAL VALUE OF LEASED EQUIPMENT (Note 1)	<u>151,462</u>	<u>145,201</u>
FIXED ASSETS-AT COST LESS ACCUMULATED DEPRECIATION AND AMORTIZATION (Notes 3 and 6):		
Service bureau equipment	556,531	346,573
Casual rental equipment	89,940	23,227
Certifying plant	16,975	16,975
Office furniture	27,681	38,128
Automobiles	9,355	6,974
Leasehold improvements	5,137	3,036
	<u>705,619</u>	<u>434,913</u>
Deduct accumulated depreciation and amortization	<u>131,311</u>	<u>14,944</u>
	<u>574,308</u>	<u>419,969</u>
OTHER ASSETS:		
Unamortized excess cost of subsidiary, subsequently liquidated (Note 2)	1,023,756	1,061,208
Programmes and goodwill — at cost	57,706	57,706
Cash surrender value of life insurance	6,250	—
	<u>1,087,712</u>	<u>1,118,914</u>
	<u>\$ 2,665,688</u>	<u>2,458,310</u>

LIABILITIES

CURRENT LIABILITIES:

	1972	1971
Bank loan, secured	\$ —	124,040
Accounts payable and accrued liabilities . .	266,924	462,313
Current portion of long-term debt, secured (Note 3)	54,648	26,208
Due to shareholder	—	7,124
Total current liabilities	<u>321,572</u>	<u>619,685</u>

LONG-TERM DEBT (NOTE 3):

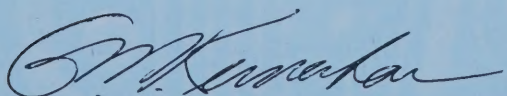
Notes payable in respect of leases and casual rental equipment contracts	226,472	112,871
Other	58,612	38,553
	<u>285,084</u>	<u>151,424</u>

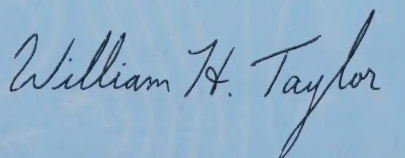
SHAREHOLDERS' EQUITY:

Capital stock (Note 4):		
Common shares of no par value.		
Authorized 6,000,000 shares		
Issued 4,530,000 shares	3,057,422	3,057,422
Contributed surplus	117,503	117,503
Deficit	(1,115,893)	(1,487,724)
	<u>2,059,032</u>	<u>1,687,201</u>

COMMITMENTS AND CONTINGENCIES (NOTE 5)

Approved on behalf of the Board:

 , Director

 , Director

<u>\$ 2,665,688</u>	<u>2,458,310</u>
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COMPUTREX CENTRES LTD.

STATEMENT OF EARNINGS

Year ended March 31, 1972

(with comparative figures for 1971)

	1972	1971
INCOME:		
Sales of supplies, equipment and services	\$ 1,459,719	612,565
Equipment rentals earned (Note 2)	193,788	23,309
Investment and other income	11,395	40,449
	<u>1,664,902</u>	<u>676,323</u>
EXPENSES:		
Cost of sales and services	570,907	368,727
Salaries and commissions	295,636	340,691
Equipment rentals	60,972	188,680
Rent — premises	54,431	97,732
Selling expenses	60,024	90,658
Other general and administrative expenses	68,672	102,637
Amortization of excess cost of subsidiary (Note 2)	35,200	—
Depreciation and amortization (Note 6)	109,267	15,065
Interest:		
Long-term debt	24,891	4,634
Other	5,253	1,208
Miscellaneous	7,818	11,796
	<u>1,293,071</u>	<u>1,221,828</u>
Net earnings (loss) before income taxes and extraordinary items	371,831	(545,505)
INCOME TAXES	191,972	—
Net earnings (loss) before extraordinary items	<u>179,859</u>	<u>(545,505)</u>
EXTRAORDINARY ITEMS:		
Income taxes recoverable arising on application of loss carry forward	<u>191,972</u>	<u>(144,229)</u>
Loss on disposal and write off of fixed assets	—	60,800
Cancellation of shares previously issued for process development	—	—
	<u>191,972</u>	<u>(83,429)</u>
NET EARNINGS (LOSS) (Notes 6 and 7)	<u>\$ 371,831</u>	<u>(628,934)</u>

See accompanying notes.

COMPUTREX CENTRES LTD.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended March 31, 1972

(with comparative figures for 1971)

	1972	1971
SOURCE OF FUNDS:		
Net earnings (loss)	\$ 371,831	(628,934)
Add charges (credits) not requiring cash:		
Depreciation and amortization (Note 6)	109,267	15,065
Amortization of excess cost of subsidiary (Note 2)	35,200	—
Other	(9,504)	—
Process development costs	—	(60,800)
Write-down of fixed assets	—	144,229
	<hr/>	<hr/>
Funds provided from (applied to) operations	506,794	(530,440)
Issue of common shares	—	1,195,920
Increase in notes payable in respect of leases	113,601	134,321
Increase in other long-term debt, net of current portion	20,059	—
Proceeds on disposal of fixed assets	93,180	82,095
Other	2,252	—
	<hr/>	<hr/>
	735,886	881,896
	<hr/>	<hr/>
FUNDS APPLIED:		
Excess of purchase price over underlying net book value of subsidiary at date of acquisition (Note 2)	—	1,061,208
Purchase of fixed assets	347,282	506,228
Increase in net leases receivable	53,064	123,137
Increase in residual value of leased equipment	6,261	145,201
Purchases of programmes and goodwill and finance charges	—	79,156
Reduction of long-term debt for fixed assets	—	23,085
Increase in cash surrender value of life insurance	6,250	—
	<hr/>	<hr/>
	412,857	1,938,015
	<hr/>	<hr/>
INCREASE (DECREASE) IN WORKING CAPITAL	323,029	(1,056,119)
WORKING CAPITAL AT BEGINNING OF YEAR	31,404	1,087,523
	<hr/>	<hr/>
WORKING CAPITAL AT END OF YEAR	\$ 354,433	31,404
	<hr/>	<hr/>

See accompanying notes.

COMPUTREX CENTRES LTD.

STATEMENT OF DEFICIT

Year ended March 31, 1972

(with comparative figures for 1971)

	1972	1971
BALANCE AT BEGINNING OF YEAR	\$ 1,487,724	858,790
NET EARNINGS (LOSS) FOR THE YEAR	371,831	(628,934)
	<hr/>	<hr/>
BALANCE AT END OF YEAR	<u>\$ 1,115,893</u>	<u>1,487,724</u>

STATEMENT OF CONTRIBUTED SURPLUS

Year ended March 31, 1972

(with comparative figures for 1971)

	1972	1971
BALANCE AT BEGINNING OF YEAR	\$ 117,503	10,000
ADD:		
Contributed surplus arising on cancellation of 580,000 common shares previously issued for a cash consideration of \$107,503	—	107,503
	<hr/>	<hr/>
BALANCE AT END OF YEAR	<u>\$ 117,503</u>	<u>117,503</u>

See accompanying notes.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Computrex Centres Ltd. as of March 31, 1972 and the statements of earnings, deficit, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at March 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of providing for depreciation as referred to in note 6 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Calgary, Alberta
May 30, 1972 (July 27, 1972 as to Note 9)

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

COMPUTREX CENTRES LTD.

NOTES TO FINANCIAL STATEMENTS

March 31, 1972

1. LEASES RECEIVABLE:

The company follows the practice of recording the total lease contracts in force and residual value of leased equipment as assets. The excess of the rentals to be received over the cost of the equipment leased, less residual values, is credited to unearned income. The remainder of the unearned income will be transferred to income over the terms of the leases in diminishing monthly amounts on the sum of the digits method based on payments deemed to be made in accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.

The lease contracts provide for equal periodic payments to be received over the terms of the leases. Based on leases outstanding at March 31, 1972, the amount of rentals to be received in the next three years is summarized as follows:

Year ended March 31,	
1973	\$ 172,937
1974	146,276
1975	65,489
thereafter	18,888
	<u>\$ 403,590</u>

2. EXCESS COST OF SUBSIDIARY (liquidated):

Prior to March 31, 1971 the company acquired all the issued and outstanding shares of Computrex Computer Centres Ltd. (which was subsequently liquidated) in exchange for 2,718,000 shares of the company having an ascribed value of \$1,195,920. The excess of the cost over the underlying net book value of the subsidiary company, less amortization thereon, has been included in the accompanying balance sheet under the heading "Other Assets".

3. LONG-TERM DEBT:

The notes payable in respect of leases and casual rental equipment contracts are secured as follows:

- Assignment of certain leases receivable having an aggregate value of approximately \$325,000
- Assignment of receipts from certain casual rental equipment contracts

c) Chattel mortgages on certain leased and casual rental equipment

d) General assignment of accounts receivable

The notes payable are repayable monthly to the extent of the monthly receipts from the lessees. During the year ended March 31, 1973 and the year ended March 31, 1974 it is estimated that \$157,808 and \$68,664 respectively, will be repaid.

Other long-term debt is as follows:

	Current	Long-term	Total
Bank loan, payable \$209 per month, secured by chattel mortgage on certain equipment	\$ 2,508	6,548	9,056
Conditional sales contract, payable \$3,752 per month, principal and interest, secured by certain equipment, interest at 10%	39,608	32,384	71,992
Conditional sales contract, payable \$970 per month, principal and interest, secured by chattel mortgage on certain equipment, interest at 10½%	9,100	19,680	28,780
Conditional sales contract, payable \$286 per month, secured by certain inventory	3,432	—	3,432
	<u>\$ 54,648</u>	<u>58,612</u>	<u>113,260</u>

4. CAPITAL STOCK:

The company has reserved 310,000 common shares of its capital stock as follows: (See also Note 9):

Shares

100,000 By agreement dated August 12, 1969 the company granted an option to its underwriter to purchase 100,000 common shares at \$2.25 per share during the period from August 1972 to 1979. The option is evidenced by warrants sold for a consideration of \$10,000, which amount is included in contributed surplus.

NOTES TO FINANCIAL STATEMENTS (Continued)

200,000 Under an agreement to acquire shares of a subsidiary company, (subsequently liquidated) an irrevocable option was granted to purchase 200,000 common shares of the company at 35 cents per share, exercisable in whole or in part from time to time from January 1971 to December 1973.

10,000 Under an employees stock option plan the company has granted an option to purchase 10,000 common shares to June, 1974 but cancelled on termination of employment, at a price of \$1.75 per share as to one-third of the option shares and at a price of \$3.50 per share as to the remaining two-thirds.

310,000 Shares

5. COMMITMENTS AND CONTINGENCIES:

The company is committed to premises and equipment rentals aggregating approximately \$87,100 expiring at various dates up to 1976. The rentals with respect to the year ended March 31, 1973 will be approximately \$39,700.

As at March 31, 1972 Computrex Centres Ltd. had various items in dispute or claims filed aggregating approximately \$44,720. No provision has been made in the accounts for possible losses in connection with these items. In the opinion of management the majority of items in dispute or claims are unfounded.

6. CHANGE IN DEPRECIATION POLICY:

As of April 1, 1971 the company changed its method of recording depreciation for service bureau and casual rental equipment from the diminishing balance method to the straight line method based on the estimated useful life of the equipment. Had the company not changed the method of providing for depreciation, the depreciation provided would have been increased by \$27,026 and the net earnings for the year ended March 31, 1972 would have been \$344,305 or \$.07 per share.

7. EARNINGS (loss) PER SHARE:

	1972	1971
Before extraordinary item	\$ 0.04	(0.20)
Extraordinary item	0.04	(0.03)
Net earnings (loss)	<u>\$ 0.08</u>	<u>(0.23)</u>

The earnings (loss) per share figures are calculated using the monthly average of the number of shares outstanding during the respective fiscal year. No dilution of earnings would arise if all of the shares reserved for options were exercised.

8. REMUNERATION:

The aggregate remuneration of the directors who are also officers of the company for the year ended March 31, 1972 amounted to \$23,400.

9. SUBSEQUENT EVENT:

Subsequent to March 31, 1972, an employee stock option incentive plan was approved by the directors and regulatory authorities, subject to the approval of the shareholders. The company will reserve 200,000 shares under the plan. Options will be granted at 35¢ per share exercisable on a non-cumulative basis in equal amounts for a period of not less than three and not more than five years from the date they are granted.

Statement in accordance with Section 162 (2) of
The Companies Act (British Columbia)

The subsidiary companies have had no operations during the year ended March 31, 1972.

As the subsidiary companies are inactive and the accumulated losses of \$322,757 have been provided in the accounts of the parent company in prior years, consolidated financial statements have not been presented.

